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CLOUD ERP: THE BACKBONE BEHIND FINANCE AND ACCOUNTING AGILITY

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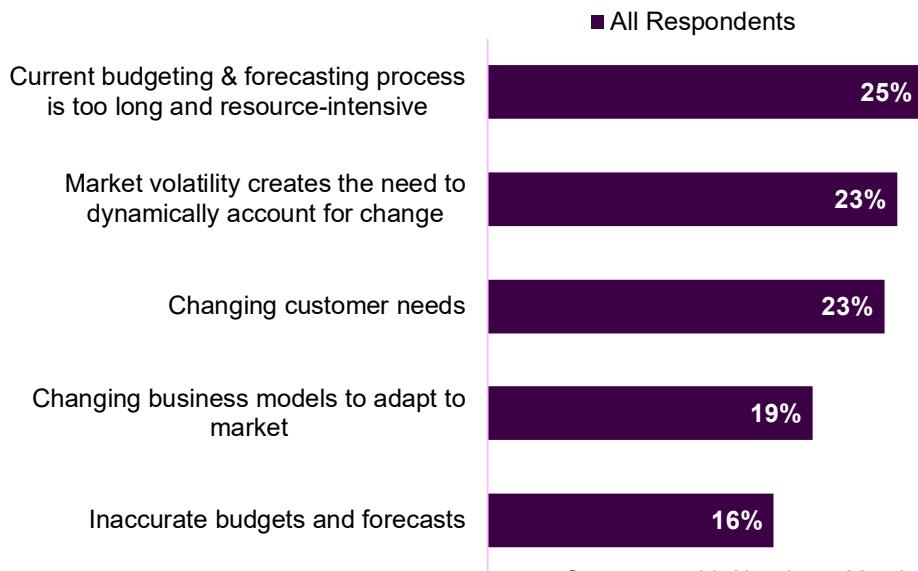
While many disruptions brought about by the pandemic may seem like they're in the past, lingering impacts like volatility in demand, residual revenue loss, and inflated energy costs are still affecting businesses' bottom lines today. The issues that companies continue to face are driven by uncertainty, which intensifies the demands on finance and accounting teams to respond quickly with accurate insights for decision-making. This report examines how cloud-based ERP solutions enable finance and accounting teams to streamline and improve their processes in response to market demands.

Business Case: Finance and Accounting Teams Must Be Prepared to Support the Current Market Demands

The business pressures today reflect the fact that the pandemic impacts are still with us in the form of supply chain / operations disruptions and inflation-driven cost challenges (sidebar page 2). The nature of these pressures creates many fire drills for the finance and accounting teams, demanding that they absorb the issues at hand and respond to the market changes as nimbly as possible. *Business as usual* means *responsiveness on demand*.

Figure 1 provides the top-of-mind business pressures for all ERP respondents. These pressures are ranked in response to the question of "What are the TOP TWO business pressures driving your organization to improve its financial planning, budgeting, and forecasting?"

Figure 1: Organizational Business Pressures Finance Teams Must Be Equipped to Address with Streamlined Processes



The first pressure encapsulates the overarching issue facing finance and accounting organizations. Current budgeting and forecasting capabilities are

Best-in-Class Definition

(Based on Performance Metrics)

- ▶ **Best-in-Class:** Top 20%
- ▶ **Industry Average:** Middle 50%
- ▶ **Laggards:** Bottom 30%
- ▶ **All Others:** The sum of the Industry Average and Laggards, equal to the Bottom 80%

Best-in-Class Maturity Index

Customer Service Levels (On-time and Complete)

Best-in-Class: **94.3%**
All Others: **83.5%**

Productivity % Improvement Over the Last 2 Years

Best-in-Class: **19.6%**
All Others: **-0.8%**

Profitability % Improvement Over the Last 2 Years

Best-in-Class: **15.8%**
All Others: **-2.6%**

Internal Schedule Attainment

Best-in-Class: **93.5%**
All Others: **82.3%**

too slow and cumbersome. This highlights the need for streamlining and automating wherever possible. The foundation required is the data, but the process flows must be able to leverage the data for analysis and insights.

The need to dynamically account for changes further emphasizes the “real-time” sentiment that the finance teams are striving for. There must be no delays in reporting across the enterprise. The “why” behind it is the volatility they are dealing with as shown by the disruptions.

However, in addition to the disruptions themselves, the volatility also comes from the changing customer needs and the need to adopt and adapt to new business models just to meet the changing market demands, some of which have been driven by lost revenue from the pandemic that needs to be replaced. The operative description is business changes that are driving volatility.

Volatility demands continuous reforecasting capabilities across the enterprise and may involve many participants in the process that may engage with the finance team such as forecasting in operations.

Best-in-Class Maturity Levels and Cloud Adoption

The Best-in-Class are defined as the top 20% of survey respondents based on business performance metrics as shown in the sidebar on page 2. Their performance against their competition (remaining 80% of respondents) is the rationale for exploring the capabilities and technology that they have in place. When it comes to cloud-based ERP adoption, the Best-in-Class are 39% more likely to adopt cloud-based ERP solutions in place (see sidebar entitled Cloud Adoption by Maturity Class). In evaluating the benefits of the cloud, the data was then divided into those companies with cloud ERP versus those that did not have cloud ERP for purposes of comparison.

Cloud ERP Value Demonstrated in Process Advantages Across the Organization to Support the Market Demands

Organizations that have adopted cloud-based ERP have a significant advantage in their capabilities that involve collaboration, incorporating risk reporting and analyses across their organization. These capabilities are shown in Figure 2 for companies in the Cloud and for companies that are not cloud-based. In all these processes there are functions involved that may be external to the finance and accounting teams which accentuates the importance of streamlining the finance and accounting processes as the backbone for the organization.

Business Disruptions

Pandemic outbreak	55%
Raw materials price volatility	39%
Shipment delayed / damaged / misdirected	38%
Fuel price volatility	32%
Port congestion	31%
Increase in customer demand	27%
Supplier / carrier capacity did not meet demand	27%
Reduction in customer demand	27%
Unexpected customs delay	26%
Commodities price volatility	23%

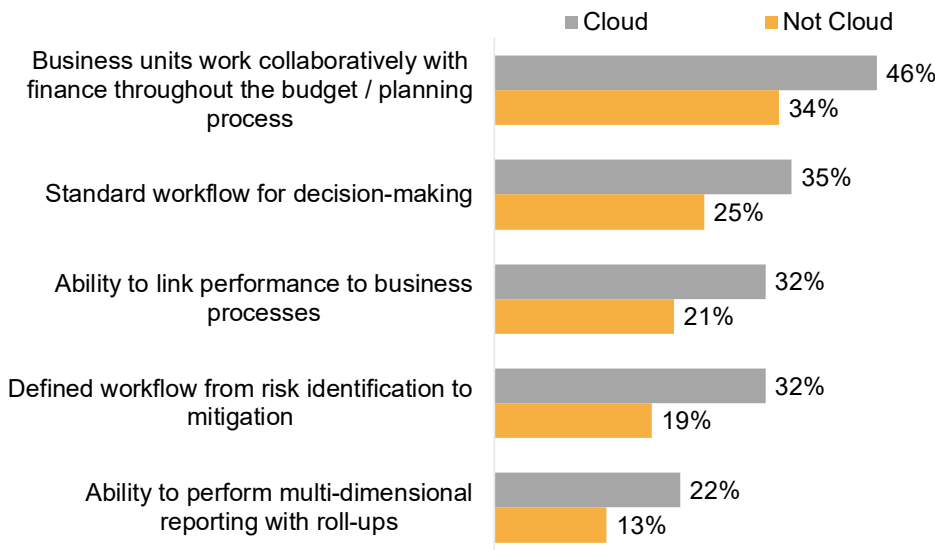
Best-in-Class Companies are

39%

More Likely to Have Adopted Cloud ERP

The first example is the ability of the business units to work collaboratively with finance throughout the budgeting and planning process. For the finance and accounting teams, this effort may involve several interfaces across multiple business units. To ensure there are not multiple versions of the processes, cloud users are 40% more likely to have a standardized workflow for decision making. Everyone involved knows what to do.

Figure 2: The Value of Cloud Across Critical Process Capabilities



Source: n=528 Aberdeen, March 2022

Perhaps one of the most important advantages is the ability to *know* what processes are working and which ones need help by being able to link performance to business processes. The value of this capability is being able to get to the root cause of problems much more quickly because the links are already built and it's not a discovery process to find out where the issues or successes are coming from. The reaction time when issues occur is drastically reduced with this *cause-and-effect* capability.

The current uncertainty driven by the pandemic hangover, increasing supply chain disruptions, rising inflation costs, and energy cost increases affect all companies and products in some manner. Top-of-mind is the need to continuously evaluate risk with a formal process in place to do so, which prepares companies as much as possible by constantly reviewing all areas of risk that could impact the business. This enables them to establish contingency plans to mitigate the impact should unfortunate events unfold.

Communicating the information across the organization is critical so that all decision makers are informed of the latest financial information possible. This happens routinely for companies that have the ability, to provide information

Cloud Adoption by Maturity Class

Cloud / Software-as a Service (SaaS)

Best-in-Class: **50%**

All Others: **36%**

ERP Hosted & Managed by ERP Vendor

Best-in-Class: **35%**

All Others: **37%**

ERP Hosted & Managed by Independent Third Party

Best-in-Class: **7%**

All Others: **17%**

Traditional Licensed On-Premise

Best-in-Class: **6%**

All Others: **5%**

Financial KPI Improvements

Time-to-Decision % Improvement over last 2yrs

Best-in-Class: **15.6%**

All Others: **7.4%**

Improved Cycle Time for Business Processes

Best-in-Class: **15.6%**

All Others: **7.4%**

Accuracy of Financial Reports % Improvement over past year

Best-in-Class: **12.9%**

All Others: **-1.0%**

in a multi-dimensional form so that decision makers see the data they need *in the form that they need to see it*, so no further manipulation is required. When changes occur, there is also the ability roll that information up and down the organization depending on the type of change. Having the reporting and communication capabilities in place eliminates the one-off and ad-hoc/silo reporting that is often the basis for confusion/disagreement on the data itself. Efficient finance and accounting organizations have taken this off the table by having well-established multi-dimensional reporting with rollup and rolldown processes in place.

Summary and Key Takeaways

The business pressures resulting in a high level of volatility are being driven by continued disruptions and cost challenges. Cloud-based ERP companies have the agility to absorb and respond to these market changes in a nimble manner. Speed and responsiveness are essential to have in place across all finance and accounting processes.

Cloud-based ERP enables the basic data reliability as a foundation that can be leveraged for faster and more robust insights due to cloud connectivity and process speed that shortens the time to perform the analyses and communicate the information efficiently with reliable processes.

Best-in-Class are more likely to adopt cloud-based ERP compared to their competition. Organizations that have adopted cloud-based ERP have a significant advantage in their capabilities that facilitates the streamlining of collaborative processes across organizations, incorporates risk in their analyses and reports the analyses in a timely manner.

Aberdeen recommends that all companies follow the lead established by the Best-in-Class to adopt cloud-based ERP solutions, leverage cloud integration and connectivity to drive better, faster insights, for dramatic improvements in time-to-decision, cycle time of business process, and overall superior financial performance.

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